

**GEARY COUNTY RURAL WATER DISTRICT NO. 4
GEARY COUNTY, KANSAS**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

For the Years Ended December 31, 2009 and 2008

GEARY COUNTY RURAL WATER DISTRICT NO. 4

Geary County, Kansas

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Board of Directors
Geary County, Kansas
Rural Water District No. 4
Milford, Kansas 66514

We have audited the financial statements of Geary County Rural Water District No. 4, as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of Geary County Rural Water District No. 4, as of December 31, 2009 and 2008 and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on page 2 and budget report on page 11 are not required parts of basic financial statements but are supplementary information required by accounting principles generally accepted by the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

Pottberg, Gassman & Hoffman, Chartered

POTTBERG, GASSMAN & HOFFMAN, CHARTERED
Junction City, Kansas
March 29, 2010

MEMBERS:

American Institute of
Certified Public Accountants

Kansas Society of Certified
Public Accountants



GEARY COUNTY RURAL WATER DISTRICT NO. 4

Geary County, Kansas
December 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the year 2009, the main topic discussed by management and the board of directors was the completed search for a new source of water to eliminate or mitigate the arsenic in the water. A lease agreement for the land on which to place the new well was obtained from the Corp of Engineers and drilling will commence in 2010.

Little growth occurred this year with the sale of 8 new benefit units. The district continues to absorb the growth.

Compared to 2008, in 2009 there were few large projects completed by the district. The district continues to focus on improvement of current infrastructures.

The district maintained its growth and like prior years, income was received due to the new benefit units. Those monies are kept in a Capital Improvement account to assist with expenditures anticipated in the future.

The board discussed the drilling of a new well in 2009. This would accomplish two things; it would help with potential growth and eliminate the arsenic levels currently in violation due to the decrease in the amounts allowed by EPA. The district is currently in compliance due to changes in treatment of the water.

The filter has been operating satisfactorily this past year.

A budget was adopted by the board for 2009 and again, is a basic budget just to set guidelines for the District's expenditures.

Since the district does not adopt a budget except to set guidelines to follow, the budget was monitored to keep expenditures as close as possible to the budget. The biggest difference would be in the increase in revenue due to the additional benefit units.

There has been no changes made in the long term indebtedness of the district except for payments made to the bonds when due.

This financial report is designed to provide a general overview of the District's finances and demonstrate the District commitment to public accountability. If you have any question about this report or would like to request additional information, contact the District office at 8425 Quarry Road, Milford, KS 66514.

GEARY COUNTY RURAL WATER DISTRICT NO. 4
STATEMENTS OF NET ASSETS
DECEMBER 31,

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets		
Checking Account - CNB	\$ 51,396	\$ 52,308
Money Market - CNB Capital Improvement	45,605	39,249
Money Market - CNB Principal and Interest	190,032	154,261
Cash & Cash Equivalents	287,033	245,818
Accrued Interest Receivable	3,238	3,238
Accounts Receivable - Net	16,488	15,091
Total Current Assets	<u>306,759</u>	<u>264,147</u>
Noncurrent Assets		
Capital Assets		
Utility System	1,263,767	1,249,537
Building	109,319	109,319
Equipment	23,695	23,514
Vehicle	19,000	19,000
Land Improvements	40,000	40,000
Land	18,036	18,036
Filtration System	529,073	529,073
Accumulated Depreciation	(861,912)	(797,243)
Total Capital Assets	<u>1,140,978</u>	<u>1,191,236</u>
Bond Reserve - CNB Certificate of Deposit	40,353	38,636
Loan Reserve	38,397	38,397
Loan Fees - Net	3,485	3,714
Bond Issue Costs - Net	1,864	3,355
Total Noncurrent Assets	<u>1,225,077</u>	<u>1,275,338</u>
TOTAL ASSETS	<u><u>1,531,836</u></u>	<u><u>1,539,485</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payroll Liabilities	-	1,265
Accrued Interest Payable	4,316	4,521
Water Deposits	34,800	33,200
Current Portion of Long-Term Debt	60,736	60,186
Total Current Liabilities	<u>99,852</u>	<u>99,172</u>
Noncurrent Liabilities		
Public Water Supply Loan Fund	319,689	334,875
Discount on Bond Issue (less accumulated amortization of \$4,450 and \$3,791)	(824)	(1,483)
Revenue Bonds Payable	120,000	165,000
Less Current Portion	(60,736)	(60,186)
Total Noncurrent Liabilities	<u>378,129</u>	<u>438,206</u>
Total Liabilities	<u>477,981</u>	<u>537,378</u>
Net Assets		
Invested in Capital Assets, net of related debt	702,113	692,844
Restricted for Bond Reserve	36,500	36,500
Unrestricted	315,242	272,763
Total Net Assets	<u>1,053,855</u>	<u>1,002,107</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$1,531,836</u></u>	<u><u>\$1,539,485</u></u>

The notes to the financial statements are an integral part of these statements.

GEARY COUNTY RURAL WATER DISTRICT NO. 4
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Water Revenues	\$ 222,214	\$ 221,734
TOTAL OPERATING REVENUES	<u>222,214</u>	<u>221,734</u>
OPERATING EXPENSES		
Bank Charges	46	39
Billing Services	7,865	7,260
Chemicals	5,182	4,215
Dues	290	375
Insurance	11,118	8,639
Maintenance	8,143	10,467
Miscellaneous	78	182
Office Supplies	724	1,380
Officer's Fees	1,200	1,950
Payroll Taxes	2,828	3,277
Postage	1,643	2,177
Professional Fees	13,122	5,880
Reimbursements	564	668
Repairs	4,353	12,964
Retirement	1,118	1,160
Supplies	3,547	5,195
Taxes - Clean Water Fee	774	794
Taxes - Water Protection Fee	825	847
Telephone	2,198	3,129
Utilities	10,935	12,317
Vehicle Expenses	1,617	3,207
Wages	35,307	40,366
Water Conference Expense	143	118
Water Testing	741	2,460
Well Permits	300	-
TOTAL OPERATING EXPENSES	<u>114,661</u>	<u>129,066</u>
INCOME FROM OPERATIONS BEFORE		
AMORTIZATION AND DEPRECIATION	107,553	92,668
Amortization of Issuance Costs	(2,379)	(2,380)
Depreciation	(64,669)	(66,231)
OPERATING INCOME	<u>40,505</u>	<u>24,057</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	3,760	3,925
Other Income	4,000	17,423
Other Expense	-	(6,895)
Rent and Rebate	2,593	2,820
Interest Expense	(15,110)	(16,965)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(4,757)</u>	<u>308</u>
INCOME BEFORE CONTRIBUTIONS	<u>35,748</u>	<u>24,365</u>
Capital Contributions	16,000	2,000
CHANGE IN NET ASSETS	<u>51,748</u>	<u>26,365</u>
NET ASSETS, BEGINNING	<u>1,002,107</u>	<u>975,742</u>
NET ASSETS, ENDING	<u><u>\$ 1,053,855</u></u>	<u><u>\$ 1,002,107</u></u>

The notes to the financial statements are an integral part of these statements.

GEARY COUNTY RURAL WATER DISTRICT NO. 4

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 220,817	\$ 222,090
Cash payments to suppliers for goods and services	(54,339)	(70,333)
Cash payments to employees and professional contractors for services	(61,587)	(58,054)
Net cash provided (used) by operating activities	<u>104,891</u>	<u>93,703</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(10,411)	(25,972)
Principal paid on bonds and notes	(60,186)	(59,655)
Interest paid on bonds and notes	(15,315)	(17,163)
Customer Deposits	1,600	850
FEMA Reimbursement	-	15,115
Rent and Rebate	2,593	2,820
Capital contributions	<u>16,000</u>	<u>2,000</u>
Net cash provided (used) by capital and related financing activities	<u>(65,719)</u>	<u>(82,005)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>2,043</u>	<u>2,271</u>
Net cash provided (used) by investing activities	<u>2,043</u>	<u>2,271</u>
 Net increase (decrease) in cash and cash equivalents	41,215	13,969
CASH AND CASH EQUIVALENTS AT JANUARY 1,	<u>245,818</u>	<u>231,849</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31,	<u><u>287,033</u></u>	<u><u>245,818</u></u>
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	40,505	24,057
Adjustments to reconcile operating income to net cash provided operating activities:		
Depreciation	64,669	66,231
Amortization	2,379	2,380
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	(1,397)	356
Increase (decrease) in accounts payable	(1,265)	679
Total adjustments	<u>64,386</u>	<u>69,646</u>
Net cash provided by operating activities	<u><u>\$ 104,891</u></u>	<u><u>\$ 93,703</u></u>

The notes to the financial statements are an integral part of these statements.

GEARY COUNTY RURAL WATER DISTRICT NO. 4

Geary County, Kansas

December 31, 2009

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Description

The Rural Water District No. 4, Geary County, Kansas, was declared incorporated as a quasi-municipal Corporation by the Board of Commissioners of Geary County, Kansas, in April of 1976. The District is located near Milford, Kansas and was organized pursuant to K.S.A. 89a-612 to provide water to its subscribers.

Basis of Accounting

The District's financial information is reported on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. The District performs proprietary activities and therefore is subject to all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and Accounting Principles Board (APB) opinions that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

All bank deposit accounts and money market accounts classified as current assets are determined to be cash and cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets purchased are capitalized at cost. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method.

Allowance for Doubtful Accounts

The District bills customers on a monthly basis. Invoices not paid by the 16th of the month incur a late fee. A notice to disconnect is sent if the invoice remains unpaid. As most customers pay before they are disconnected and there have been no amounts written off in the past three years, management has set the allowance account at zero.

NOTE 2 – DEPOSITORY SECURITY

K.S.A. 9-1402 requires the District to obtain security in the amount of one hundred percent of deposits in excess of FDIC or FSLIC insurance coverage prior to depositing any public monies in any state bank, national bank, or savings and loan institution. As of December 31, 2009, all deposits were adequately secured. Central National Bank has pledged securities in the District's name held by UMB Bank and Intrust Bank.

GEARY COUNTY RURAL WATER DISTRICT NO. 4

Geary County, Kansas

December 31, 2009

NOTE 2 – DEPOSITORY SECURITY continued

The following is a comparison of depository security with balances on deposit with the District's designated depository:

	<u>Central National Bank</u>
Bank deposits on	
December 31, 2009	\$ 332,323
FDIC coverage	(250,000)
Pledged securities	<u>(82,323)</u>
Unsecured deposits	<u>\$ -</u>

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are customer water bills that have been invoiced but remain unpaid. The balance is shown net of the allowances for doubtful accounts.

The following is an aging of accounts receivable for the District at December 31, 2009:

	<u>Total</u>	<u>Current</u>	<u>Over 30 Days</u>
Accounts Receivable	<u>\$16,488</u>	<u>\$16,488</u>	<u>\$ -</u>

NOTE 4 – CAPITAL ASSETS

Capital assets are carried at cost. Depreciation of property and equipment are provided on the straight-line method over the following estimated useful lives:

Original Water System	50 years
Additions to System	40 years
Building	40 years
Machinery and Equipment	7 years
Computer Equipment	5 years
Computer Software	3 years

	<u>Beginning Balance</u>	<u>Accumulated Depreciation</u>	<u>Purchases</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Ending Balance – Net of Depreciation</u>
2008	\$1,967,109	(\$731,028)	\$30,148	(\$8,762)	(\$66,231)	\$1,191,236
2009	\$1,988,479	(\$797,243)	\$14,523	(\$ -)	(\$64,669)	\$1,141,090

NOTE 5 – BUDGETS AND BUDGETARY ACCOUNTING

The District is not required to adopt a legal budget. Therefore, no budgetary comparison is prepared as a financial statement. The Board approves an estimated budget each year per K.S.A. 82a-628, which is used by management to internally monitor the District's expenditures and is presented as supplementary information.

GEARY COUNTY RURAL WATER DISTRICT NO. 4

Geary County, Kansas
December 31, 2009

NOTE 6 – RETIREMENT PLAN

The District has adopted a SEP-IRA plan. The plan allows the District to make contributions into individual retirement arrangements on behalf of the employees. Contributions are made at the financial institution where the employee maintains his or her SEP account. As an IRA the employee is always fully vested in the account. Eligible employees have reached age 21, worked for the employer in at least three of the immediately preceding five years, and received at least \$500 in compensation. All eligible employees receive the same percentage contribution from the District up to a maximum of 25% of their wages up to \$49,000. For the year ended December 31, 2009 the total retirement expense was \$1,118 (3% plus fees).

NOTE 7 – BONDS PAYABLE

In 1993 the District issued new bonds in the amount of \$580,000. The proceeds of this bond issue were used in part to retire the 1988 Series bonds. The balance of the bond proceeds were used to add to the water system and construct a new water tower and provide office improvements.

On April 15, 2003, the district issued \$365,000 in Kansas Rural Water Finance Authority Refunding Revenue Bonds, 2003 with an effective interest rate of 3.0111% to refund the 1993 bond issue. Water revenues are used as security for these bonds.

The bonds were issued at various rates from 1.4% to 3.5% which mature as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2010	\$45,000	\$4,110	\$49,110
2011	\$75,000	\$2,625	\$77,625
Totals	\$120,000	\$6,735	\$126,735

Issuance costs of \$11,930 were paid at the time these revenue bonds were issued. These costs were capitalized and are being amortized over the life of the revenue bonds, 96 months, using the straight-line method. Amortization expense was \$1,491 in 2009 and \$1,492 in 2008.

The bonds were issued at a discount of \$5,274, which is being amortized over the life of the bonds, 96 months, using the straight-line method. Amortization expense was \$659 in 2009 and \$659 in 2008.

A bond reserve account of \$36,500 is required to be maintained for the life of the bonds. This amount plus interest earned is in a certificate of deposit at Central National Bank.

NOTE 8 – NOTE PAYABLE

In September 2003 the District started construction on a Filtration Plant with money received from the Kansas Water Supply Loan Fund administered by the Kansas Department of Health and Environment. Construction was completed in September 2004. The loan fees totaled \$4,800, and are being amortized over the life of the loan, 21 years, using the straight-line method. The

GEARY COUNTY RURAL WATER DISTRICT NO. 4

Geary County, Kansas
December 31, 2009

NOTE 8 – NOTE PAYABLE - continued

amortization expense was \$229 in 2009 and \$228 in 2008. A reserve account is held by the State in the amount of \$38,397. The loan is secured by water revenue.

The repayment schedule for this loan is as follows.

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Service Fee</u>	<u>Total Payment</u>
2010	10,232	15,736	1,105	27,073
2011	9,717	16,306	1,050	27,073
2012	9,184	16,897	992	27,073
2013	8,632	17,509	932	27,073
2014	8,059	18,143	871	27,073
2015-2019	30,959	101,061	3,344	135,364
2020-2024	13,199	120,739	1,426	135,365
2025	216	13,298	23	13,536
Totals	\$90,198	\$319,689	\$9,743	\$419,630

NOTE 9 – LONG TERM DEBT SUMMARY

The following schedule shows the changes in long-term debt and related maturities.

<u>Description</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1-1-09</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-09</u>	<u>Date Due</u>	<u>Interest Paid In 2009</u>
Bonds	04/15/03	\$365,000	\$165,000	\$45,000	\$120,000	7/1/2011	\$ 4,807
State Loan	12/17/04	\$383,965	334,875	15,186	319,689	2/1/2025	10,508
Total Indebtedness			<u>\$499,875</u>	<u>\$60,186</u>	<u>\$439,689</u>		<u>\$15,315</u>

NOTE 10 – DEBT SERVICE RATIO

The bond issue and state loan covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the years ending:	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Change in Net Assets	\$ 51,748	24,711
Interest Expense	15,110	16,965
Amortization & Depreciation	67,048	68,611
Less Capital Contributions	(16,000)	(2,000)
Total Revenue Available for Debt Service	<u>\$ 117,906</u>	<u>\$ 108,287</u>
Debt Service Payments	\$75,501	\$76,818
Debt Service Ratio	<u>1.56</u>	<u>1.41</u>

The District is in compliance with the bond issue and state loan covenants.

GEARY COUNTY RURAL WATER DISTRICT NO. 4

Geary County, Kansas
December 31, 2009

NOTE 11 - LITIGATION

There were no legal actions involving the Geary County Rural Water District No. 4 as of December 31, 2009.

NOTE 12 – RISK MANAGEMENT

Geary County Rural Water District No. 4 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

NOTE 13 – RELATED PARTIES

All the members of the board of directors are water district customers. The only material transactions were water purchases consummated on the same terms as all other water customers.

GEARY COUNTY RURAL WATER DISTRICT NO. 4

BUDGET REPORT - CASH BASIS

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
OPERATING REVENUE			
Water Revenues	\$ 222,000	\$ 220,817	\$ (1,183)
TOTAL OPERATING REVENUES	<u>222,000</u>	<u>220,817</u>	<u>(1,183)</u>
EXPENDITURES			
Amortization	2,376	-	(2,376)
Bank Charges	132	46	(86)
Billing Services	7,260	7,865	605
Chemicals	10,200	5,182	(5,018)
Depreciation Expense	63,600	-	(63,600)
Dues	265	290	25
Insurance	9,380	11,118	1,738
Maintenance	6,038	8,143	2,105
Miscellaneous	137	78	(59)
Office Supplies	720	724	4
Officer's Fees	1,800	1,200	(600)
Payroll Taxes	2,526	4,093	1,567
Postage	600	1,643	1,043
Professional Fees	7,000	13,122	6,122
Reimbursements	1,404	564	(840)
Repairs	12,000	4,353	(7,647)
Retirement	1,050	1,118	68
Supplies	3,600	3,547	(53)
Taxes - Clean Water Fee	720	774	54
Taxes - Water Protection Fee	720	825	105
Telephone	2,124	2,198	74
Utilities	12,300	10,935	(1,365)
Vehicle Expenses	4,051	1,617	(2,434)
Wages	37,590	35,307	(2,283)
Water Conference Expense	-	143	143
Water Testing	2,100	741	(1,359)
Well Permits	1,200	300	(900)
Corporate Property Lease	1,200	-	(1,200)
TOTAL OPERATING EXPENDITURES	<u>192,093</u>	<u>115,926</u>	<u>(76,167)</u>
DEBT RETIREMENT:			
Principal Paid	-	60,186	60,186
Interest	17,976	15,315	(2,661)
Loan Fees	1,212	-	(1,212)
TOTAL EXPENDITURES	<u>211,281</u>	<u>191,427</u>	<u>(19,854)</u>
OTHER INCOME (EXPENSES)			
Capital Improvements	(1,600)	(10,411)	(8,811)
Interest Income	2,100	2,043	(57)
Late Charges	600	-	(600)
New Benefit Units	4,000	16,000	12,000
Rent Income	600	600	-
Water Deposits	-	1,600	1,600
Insurance Rebate	2,500	1,993	(507)
TOTAL OTHER INCOME	<u>8,200</u>	<u>11,825</u>	<u>3,625</u>
INCREASE (DECREASE) IN CASH	<u>\$ 18,919</u>	<u>\$ 41,215</u>	<u>\$ 22,296</u>

The notes to the financial statements are an integral part of these statements.